Weekly Market Update

November 14, 2022

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"What you do makes a difference, and you have to decide what kind of difference you want to make."

~ Jane Goodall

Market Watch

Week Ending Nov. 11, 2022

(Source: Briefing.com)

• DJIA: *2022 YTD -7.10%*	33,747.86	1,344.66
• NASDAQ: *2022 YTD -27.60%*	11,323.33	848.13
• S&P 500: *2022 YTD -16.20%*	3,992.93	222.38
• Russell 2000: *2022 YTD -16.10*	1,882.74	82.87
• 10 Year Treasury:		3.813%

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Dave's Weekly Commentary

What a week! Midterm elections are almost behind us, the Fed changed their language on interest rates rising, recent inflation readings are hopeful, Ohio State won handily, and Nancy and I attended Joe Walsh and friends Vet Aid concert this past weekend, and yes it seems as winter is starting to arrive here in Ohio as I look out my family room window at the remaining snow for Saturday's dusting. At the office everyone is working very hard to get the RMDs (required minimum distributions) including QCDs (qualified charitable distributions) processed. This week we are also having a quarterly investment management meeting, reviewing and re-reviewing our processes and allocations as we enter into the last part of 2022, 2023, and beyond. On top of those focused tasks, we are seeing clients to talk about recent updates in their lives and review their financial plans.

If you follow the news, you've probably realized that this past week that just concluded was some kind of week. There was turmoil in the cryptocurrency market as FTX faced a liquidity crunch. The week ended with FTX Group stunningly filing for Chapter 11 bankruptcy. That wasn't even the half of it.

There was a midterm election on Tuesday, the final results of the house which are still unknown as of this writing. Reports suggests the GOP will manage to claim a narrow majority in the House and with the GOP possibly holding a narrow majority in the House (no idea whether this will be the case) but if it is, it is evident that the next few years likely will not include any new major spending plans or tax hikes. In other words, there will be legislative gridlock for the next few years unless the two parties work together to avoid being labeled a "do nothing Congress."

The stock market this week was anything but a "do nothing market." It was filled with trading excitement that produced the best day for the market on Thursday since 2020 and some large gains for the major indices. I see the catalyst as (not the election) for the excitement was the October CPI report, which came in better than expected and much better than feared. Total CPI increased 0.4% month-over-month in October (Briefing.com consensus 0.7%) while core-CPI, which excludes food and energy, increased 0.3% month-over-month (Briefing.com consensus 0.5%). The monthly changes left total CPI up 7.7% year-over-year, versus 8.2% in September, and core CPI up 6.3% year-over-year, versus 6.6% in September.

The key takeaway from the report wasn't singular. It was manifold: (1) The report helped validate the peak inflation view. (2) The report is apt to compel the Fed to take a less aggressive rate-hike approach at the December FOMC meeting. (3) Some encouragement was borne out of the understanding that the shelter index (computed with a lag) contributed more than half of the monthly all items increase, suggesting price increases moderated in many other areas.

This welcome inflation news, combined with drop in the dollar and market rates, launched a rally. The Nasdaq Composite for its part rallied 7.4% on Thursday.

The 10-yr note yield dove 31 basis points to 3.84%. The 2-yr note yield, which is sensitive to changes in the fed funds rate, plunged 32 basis points to 4.31%. Those moves were precipitated on anticipating changing rate-hike expectations. The fed funds futures market now sees an 83.0% probability of a 50-basis points rate hike at the December FOMC meeting (versus 56.8% before the CPI data) and a terminal rate of 4.75-5.00% by June (versus 5.00-5.25% before the CPI data).

The U.S. Dollar Index fell 4.0% last week and the drop in the dollar took some of the pressure off the multinationals and aided in the belief that downward revisions to 2023 earnings estimates may not be as severe as feared, assuming the weakness persists.

Another factor aiding that belief was a Bloomberg report that China relaxed quarantine guidelines for inbound travelers and is aiming to avoid city-wide testing when COVID transmission chains are clear.

The S&P 500, which dipped below 3,500 following the disappointing September CPI report in mid-October, peeked its head above 4,000 on Friday and closed just below that level when the final bell for the week rang.

All 11 S&P 500 sectors logged gains this week, none bigger than the information technology sector (+10.0%), and other standouts included the communication services (+9.2%), materials (+7.7%), real estate (+7.1%), consumer discretionary (+5.9%), and financial (+5.7%) sectors. The weakest performers were the defensive-oriented health care (+1.8%) and utilities (+1.4%) sectors. Source: Briefing.com

It was a good week and more information will come as the days pass. We have some good reasons to exhale (a little) but need to be vigilant as all these variables are fluid, and change can happen quickly. Much will depend on whether inflation shows more signs of cooling. The Fed will get one more CPI reading before policymakers gather again in December. We will see and act as prudently as we can.

Have a good week, Dave

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Planning Points *Where did 2022 go? It seems like yesterday we entered into the year! We now find ourselves reviewing year-end planning tips, yet again. Source: Broadridge Advisor Solutions Copyright 2022.*

2022 Year-End Planning Tips

Here are some things to consider as you weigh potential tax moves between now and the end of the year.

1. Defer income to next year

Consider opportunities to defer income to 2023, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

2. Accelerate deductions

You might also look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year (instead of paying them in early 2023) could make a difference on your 2022 return.

3. Make deductible charitable contributions

If you itemize deductions on your federal income tax return, you can generally deduct charitable contributions, but the deduction is limited to 50% (currently increased to 60% for cash contributions to public charities), 30%, or 20% of your adjusted gross income (AGI), depending on the type of property you give and the type of organization to which you contribute. (Excess amounts can be carried over for up to five years.)

4. Bump up withholding to cover a tax shortfall

If it looks as though you will owe federal income tax for the year, consider increasing your withholding on Form W-4 for the remainder of the year to cover the shortfall. Time may be limited for employees to request a Form W-4 change and for their employers to implement it in time for 2022. The biggest advantage in doing so is that withholding is considered as having been paid evenly throughout the year instead of when the dollars are actually taken from your paycheck. This strategy can be used to make up for low or missing quarterly estimated tax payments.

5. Save more for retirement

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can reduce your 2022 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so. For 2022, you can contribute up to $20,500 to a 401(k) plan ($27,000 if you're age 50 or older) and up to $6,000 to traditional and Roth IRAs combined ($7,000 if you're age 50 or older).* The window to make 2022 contributions to an employer plan generally closes at the end of the year, while you have until April 18, 2023, to make 2022 IRA contributions.

*Roth contributions are not deductible, but Roth qualified distributions are not taxable.

6. Take required minimum distributions

If you are age 72 or older, you generally must take required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (special rules apply if you're still working and participating in your employer's retirement plan). You have to make the withdrawals by the date required — the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of the amount that wasn't distributed on time.

7. Weigh year-end investment moves

You shouldn't let tax considerations drive your investment decisions. However, it's worth considering the tax implications of any year-end investment moves that you make. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses over and above the amount of your gains can be used to offset up to $3,000 of ordinary income ($1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.